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Choosing the Right Structure: Limited Company or Self - Employed?



About our guide

So, you have an idea for starting a business, but you are not sure where to start when it comes to setting it up. This guide will help you determine the best structure for you.

Every business, irrespective of its size, must have a legal structure. In the UK the choice of structure is between going self-employed or setting up as a Limited Company. Both options bring their own advantages and disadvantages, and they have different impacts on your legal and tax responsibilities.



Is Limited Company or Self-Employed better?

It depends on your personal circumstances, so it's a good idea to take some advice.

Being self-employed is the easiest and fastest business structure to set up and it involves little paperwork and obligations, but you might find yourself at a disadvantage if you are trying to access business finance, when attracting clients or benefitting from tax reliefs.

Opening a Limited company involves a bit more paperwork at the beginning and you will have to consider your responsibilities as a director, but it can open you up to many advantages including boosting your reputation among customers, accessing finance and being more tax efficient.



Self-Employed

Let's start with the option that is perceived to be the simpler structure.

Setting up as self-employed you are known as a Sole trader. As a Sole trader you and your business are deemed to be one and the same in terms of a legal identity. This means your personal assets can be at risk if your business cannot meet its liabilities,

Your business affairs are often simpler to manage and your costs likely to be lower in the start-up phase. If things don't work out as you plan, it is very simple to wrap things up and move on.

Greater privacy as your name and details are not in the public domain unlike with limited companies.

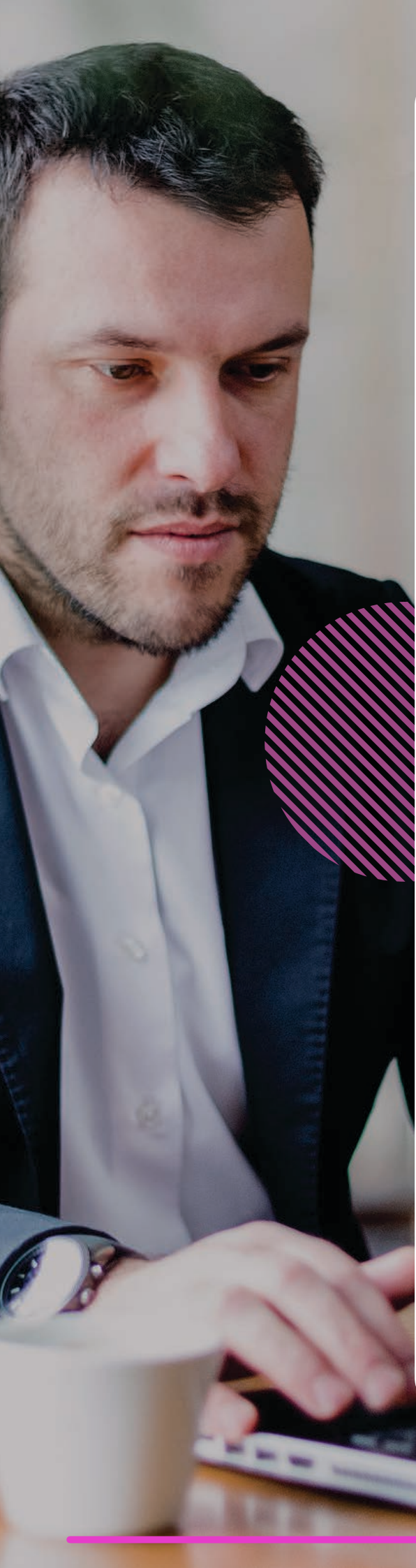
Cost effective - as a sole trader, you will notice that you gain more personal income, than when employed, providing you correctly balance your tax and national insurance payments.

As someone who is self-employed, you must keep track of your income and expenses so that you can complete your Self-Assessment Tax Return by 31 January each year. Keep in mind that filing a personal tax return as a sole trader is not always easier, therefore, utilising the services of an accountant, such as ourselves, can be beneficial.

If you are thinking of starting a business with a friend or family member, then you could consider forming a partnership.

In effect this is two self employed individuals coming together but it is best to take advice as extra rules apply.





Limited Company

When you open a Limited Company, it is a **separate legal entity** from yourself. As a shareholder and owner of a limited company, your personal assets are not at risk in the event of your business being unable to meet its debts.

A limited company does provide you with a certain amount of perceived credibility which is helpful when attracting clients and investment.

Limited companies provide more scope for growth in the future, with the introduction of additional directors and shareholders.

A Limited company provides better tax planning opportunities, but this is only the case if tax matters are planned well in advance and the company's administration and compliance is done on time and accurately.

As a director, you have duties under the Companies Act to always act in the best interests of the company. There are statutory filing deadlines for accounts and tax returns to be delivered.

What is the difference?

LIMITED COMPANY	SELF-EMPLOYED
A limited company is a type of business structure that has its own legal entity, separate from its owners.	Being self-employed means, you and your business are one and the same - there is no separate legal entity.
A major advantage of operating as a limited company is that if the business gets into financial trouble, then only the company is liable and not the business owner.	The major disadvantage to being self-employed is that there is no legal distinction between you and your company. If your business fails, then you are personally held responsible for any debts incurred.
Companies must file a Company tax return with HMRC & Company accounts.	You pay your taxes via Self-Assessment rather than through PAYE.
To start a limited company, you need to register with Companies House and appoint a director.	As a self-employed person, you must register with HMRC (this can be done online).
A disadvantage of a limited company is that there is more admin work, complex legal and reporting requirements.	An advantage of being self-employed is that there is less hassle of filing tax and other documentation.
The monies earned belong to the company and you must withdraw money either by way of salary or dividends.	As the owner of the company, you can withdraw money anytime you require it.
You can extract money through your company as dividends, providing the company is in profit.	As a self-employed individual, financial benefits such as dividends are not available to you.
Being limited is the most tax efficient as you pay corporation tax on their profits.	Being self-employed means that you need to pay Income tax on business profits

Let's Talk Tax

Limited Companies pay Corporation tax on their taxable profits. The current rates of Corporation Tax (2023/24) are:

- 19% on profits up to £50,000 in the year
- 25% on profits over £250,000 in the year
- A marginal rate applies on a sliding scale for profit levels between the two categories.

To take advantage of the tax benefits of trading as a limited company, many business owners choose to pay themselves a low salary and leave the rest of the profits in the business.

This will reduce your PAYE tax liability and your National Insurance Contributions, and you can still pay yourself additional sums in the form of dividends, which do not attract National Insurance. This will leave you with more of your hard-earned money.



If you are Self-Employed then you pay tax on all your profits at the Income tax rates, through your self-assessment return each year.

The basic rate of Income tax is currently 20% and the higher rate 40% (2023/24 tax year). Sole traders also pay Class 4 National Insurance contributions, depending on profit levels.

Tax and take-home pay are just one consideration when deciding how to structure, there are many more. However, here is an example of how your take home pay may look, operating under one or other structure.

	Self Employed	Limited Company
Turnover	50,000	50,000
Business Overheads	15,000	15,000
Employers Nic		479
Salary	0	12,570
	15,000	28,049
Taxable Profits before Tax	35,000	21,951
Corpotation Tax at 19%	0	4170.69
Profit available	35,000	17,780
Personal Tax Liability		
Personal Income	35,000	
Salary		12,570
Dividends		17,780
	35,000	30,350
Personal Allowance	-12,570	-12,570
Dividend Allowance		-1,000
Taxable personal Income	22,430	16,780
Income tax at 20%	4,486	
Class 2 NIC	179	
Class 4 NIC @9%	2019	
Total Tax & NI	6,684	
Dividend Tax @8.75%		1,468
Take home	28,316	28,882
Total Tax Cost		
Corporation tax	0	4,171
Employers NIC		479
Personal tax	6,684	1,468
	6,684	6,118



Can I swap?

Being a sole trader is a good initial option for many small business owners starting their own venture as it's the easiest business structure to set up. However, there may come a point when you decide it's better to be a limited company and it is perfectly possible to make the switch.

There are various reasons why you might decide to change your business structure to a limited company.

They include:

- Your profits are increasing, and you want to be more tax efficient.
- You are looking to raise business funding.
- You want to boost your business' reputation and image in the eyes of existing and potential customers.
- You want to bring on board new talent.

If you do decide you wish to make the switch, it is important to take advice as there are a few formalities that need to be considered.



Secure your financial future

Broadley Accounting have supported many sole traders through their journey from start up to thriving business owners. Whenever you are unsure, need a little support or just a friendly ear we are here.

We can offer ad hoc advice, as and when you need it through “Ask the Accountant” calls or Strategic Meet ups, or we can offer ongoing support and advice at a fixed monthly fee. Get in touch today and book a call!



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This guide has been written to provide an overview of the common tax allowable expenses. The rules are complex and subject to change, so always make sure you check with us for the latest information and guidance.

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